FINANCIAL NEWS

Earnings climb 74% at Sea Galley Stores

MOUNTLAKE TERRACE, Wash.—Sea Galley Stores, operator of 37 Sea Galley restaurants and six Family Fish House restaurants, reported that for the year ended Dec. 31 net profit rose 74% over 1980 to $2.2 million.

Sales jumped 114% to $49 million.

These results reflect the company's performance during the fourth quarter ended at the same time, when net income rose 58% to $536,778 on a sales increase of 90% to $12.8 million.

The company opened 11 Sea Galley restaurants in seven western states during 1981, including five in western Washington where it already operates several restaurants.

It also acquired the 31-unit Family Fish House chain located in the mid-Atlantic states from the Macke Co., selling several units for a sum greater than the total acquisition price.

The company recently announced the acquisition of a seafood processing plant in Alaska and a meat processor and distributor based in the Pacific Northwest.

Six new restaurants are now under construction, while a Family Fish House unit in Maryland is being converted to the Sea Galley concept.

Skipper's profits rise 24% for fiscal '81

BELLEVUE, Wash.—Skipper's Inc., operator and franchisor for 117 Skipper's Seafood 'n Chowder House restaurants, reported net profit of $953,000 for fiscal 1981, a 24% increase over the prior year.

Sales increased 12% to $34 million.

The company's third consecutive annual increase in total revenues and net income was attributed to the high perceived value offered by Skipper's restaurants and an all-you-can-eat promotion.

The company, according to president M. Eugene Stone, will continue a modest pace of expansion set by 1981, when only two new units opened.

Skipper's owns 107 of its restaurants in the Western United States and in British Columbia, and franchises another 10.

Food-service net up 38% at PepsiCo

PURCHASE, N.Y.—PepsiCo Inc.'s food-service division reported operating profits rose 38% to $82 million for the year ended Dec. 28, 1981. Its 1980 operating profits were $60 million.

Revenues were up 23% from $872 million to $1.069 billion for the division which is made up of Pizza Hut and Taco Bell. According to the company, average sales per unit for the pizza chain and Mexican fast-food operations grew by 18% on a combined basis.

Pizza Hut paced its segment's performance with significant growth in average store sales.

Pamex earnings soar 123%

FORT WORTH—Pamex Foods Incorporated reported net earnings for the first quarter of fiscal 1982 increased 123% to $128,863 up from $57,747 for the same period in 1981.

Revenues for the company, which operates Pancho's Mexican Buffet, were $5.5 million compared with $5 million the previous year's quarters, an increase of 10%.

In addition to Pancho's Mexican Buffet restaurants, Pamex also operates Spanish Galleon Seafood restaurants.

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studies
UPSCALE STEAKHOUSES
Coming soon

EARNINGS REPORT

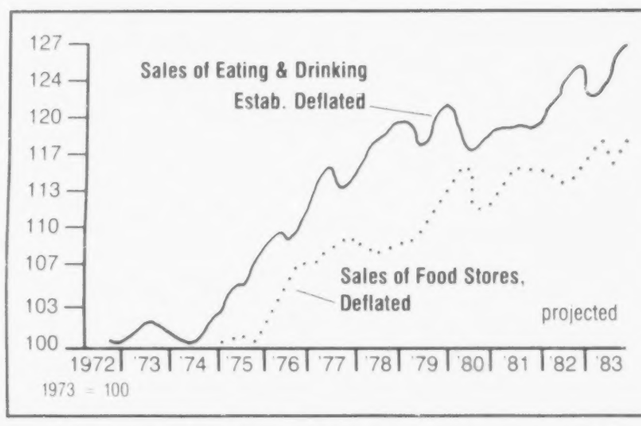
Company	Period	Period Ended	Total Sales*	% Change	Revenues*†	% Change	Net Income (Loss)*	% Change
Associated Hosts	3 mos.	12/26			$ 19.959	5	$ 0.584	94
Beefsteak Charlie's	1 yr.	10/31			87.896	81	3.264	57
General Host	1 yr.	12/31	$497.628	17			13.968	3,266
	3 mos.	12/31	163.943	22			16.881	**
Mr. Steak Inc.	3 mos.	12/27			13.688	2	0.102	23
Nathan's Famous Inc.	9 mos.	12/31			14.094	– 23	0.584	335
	3 mos.	12/31			4.032	– 14	(0.083)	—
Sea Galley Stores	1 yr.	12/31	49.004	114			2.205	74
	3 mos.	12/31	12.820	90			0.537	58
Skippers	52 wks.	12/27			33.991	11	0.953	24
	16 wks.	12/27			10.610	8	0.257	– 43
Wendy's Int'l	1 yr.	12/31			490.429	40	36.852	22
	3 mos.	12/31			137.721	43	9.460	19

Source: *Company earnings reports*

—loss in corresponding period
**In millions*
***loss in previous period*
†In cases where companies do not break out their total sales for all units, revenues are indicated instead. These generally consist of company-owned restaurant sales, franchise fees and rental incomes, royalties and operating income, as well as other miscellaneous incomes, such as interest income and gains on real estate and construction.

L/F ECONOCYCLE

See first 'real' gains emerging in May



Eating & Drinking Estab.

Sales Change By Quarter

	'81 1Q %	'81 2Q %	'81 3Q %	'81 4Q %	'82* 1Q %	'82* 2Q %	'82* 3Q %	'82* 4Q %	12-Month % Change '80 %	'81 %	'82* %
Sales include Inflation	7.4	11.4	10.0	9.8	8.3	7.6	11.4	10.9	8.7	9.6	9.6
Real sales (Deflated)*	– 2.1	2.1	1.1	1.6	1.8	0.9	4.1	3.3	– 0.7	0.6	2.5

Base = Dec. 1981 Sales
*Projected

After months of nagging pessimism, consumers seem to be turning confident about the economy again. But they still aren't ready to shell out hoarded disposable dollars for major purchases any time soon, according to the latest soundings of the Conference Board.

This outlook goes hand-in-glove with current Econocycle projections for general retailing over the next few months.

Consumer spending gains will probably be modest at best, the new Conference Board study indicates. Its latest consumer confidence index reading (calculated on a 1969-70 base of 100) moved up to 61.2 in January, an increase of 1.8 points over December.

The turnaround in attitude hints at an improving economy and mirrors L/F's own spending indicator (below) which now sees a clear "recovery path" opening up for general retailing in the second quarter—although at a slower pace until year-end.

The L/F Econocycle projection for food service shows sales picking up steadily and posting gains of 1% starting next month. The outlook for eating out, in fact, looks exceptionally good this year, according to the computer model.

General retailing, on the other hand, will be off 1%-2% next month, roughly half the rate of decline in the first three months of the year. The overall retail economy should have a healthier glow as sales continue to nose upward in the 2nd period, with assists from other key categories:

- Apparel specialists have already turned the corner on '82 and are heading toward brisk increases in the second quarter. They'll probably post gains of 1% in March and April, in fact.
- Declines at major department and discount stores are slowing and should start tracking upward with sales gains by May, Econocycle projects.

Spending Indicator
Household Spending
Total Retail Sales, Deflated
projected
1972 1973 1974 1975 1976 1977 1978 1979 1980 1981 1982 1983

Sales/Include Inflation
% Change By Quarter

		Total Retail Stores	Food Stores	Eating & Drinking	Building Materials Hardware Stores	Drug Stores	Furniture & Appliance Stores	Apparel Stores	General Merchandise Stores	GAF Stores
1981	1Q	9.9	10.5	7.4	8.4	10.4	8.4	9.8	7.9	8.4
	2Q	12.3	10.7	11.4	15.2	10.3	9.0	8.7	12.5	10.9
	3Q	10.2	9.4	10.0	7.4	8.7	5.0	8.3	9.5	8.2
	4Q	6.2	7.9	9.8	6.2	5.2	2.5	5.9	5.0	4.6
1982	1Q	3.1	7.6	8.3	10.1	5.4	1.3	2.3	2.5	2.2
	2Q	3.8	7.4	7.6	0.7	5.3	7.5	4.4	2.2	3.8
	3Q*	5.4	8.0	11.4	10.7	6.3	9.3	4.9	6.5	6.7
	4Q*	7.6	9.1	10.9	15.0	6.9	8.1	5.7	10.2	8.8
% change 12 mos.	1980	7.5	10.8	8.7	3.2	11.9	4.7	4.6	5.9	5.4
	1981	9.6	9.6	9.6	6.0	8.6	6.2	8.1	8.6	8.0
	1982	5.0	8.0	9.6	3.6	6.0	6.5	4.3	5.4	5.4

Real Sales (Deflated)*
% Change By Quarter

1981	1Q	0.4	– 1.4	– 2.1	– 1.2	0.2	2.2	5.9	0.9	2.2
	2Q	3.6	0.4	2.1	6.0	0.3	3.0	4.5	5.8	4.9
	3Q	2.4	1.2	1.1	0.5	– 1.1	0.6	3.9	3.2	2.5
	4Q	– 0.4	3.0	1.6	– 11.1	– 3.9	– 3.1	2.6	– 0.3	– 0.3
1982	1Q	– 2.4	1.9	1.8	– 13.1	– 2.1	– 4.6	– 0.8	– 2.4	– 2.5
	2Q	– 0.6	1.0	0.9	– 2.9	– 0.3	– 0.2	1.3	– 2.7	– 1.2
	3Q*	2.5	0.9	4.1	3.7	2.1	1.1	2.0	1.3	1.4
	4Q*	5.4	0.4	3.3	5.5	3.0	0.0	2.2	3.6	2.6
% change 12 mos.	1980	– 2.7	3.0	– 0.7	– 12.4	2.5	– 1.4	0.1	– 1.5	– 1.2
	1981	1.5	0.8	0.6	– 1.6	– 1.1	0.4	4.2	2.4	2.3
	1982	1.2	– 0.1	2.5	– 2.2	0.6	– 0.9	1.2	– 0.1	0.0

Base = Dec. 1981 Sales
*Projected

About Econocycle

The source for the L/F Econocycle index is the Econostat Applied Economic Research Unit of The Hague, Holland. This unit consults for Government and major corporations on three continents. Its projection techniques are based on the Econocycle System, a computerized system designed by the Econostat team of economists.

Because of the changing pace of inflation in the United States, retail sales figures in the L/F Econocycle projections have been adjusted to take account of inflation. All statistics are shown in *real* terms. The charts (above, facing) represent the trend cycle. The data has been seasonally adjusted and smoothed—and is updated each month. Source for current sales and the deflator series is the U.S. Dept. of Commerce.

Where an *Index Base* is indicated, all data is converted to index numbers, starting from a common base (= 100) in order to establish meaningful performance comparisons.

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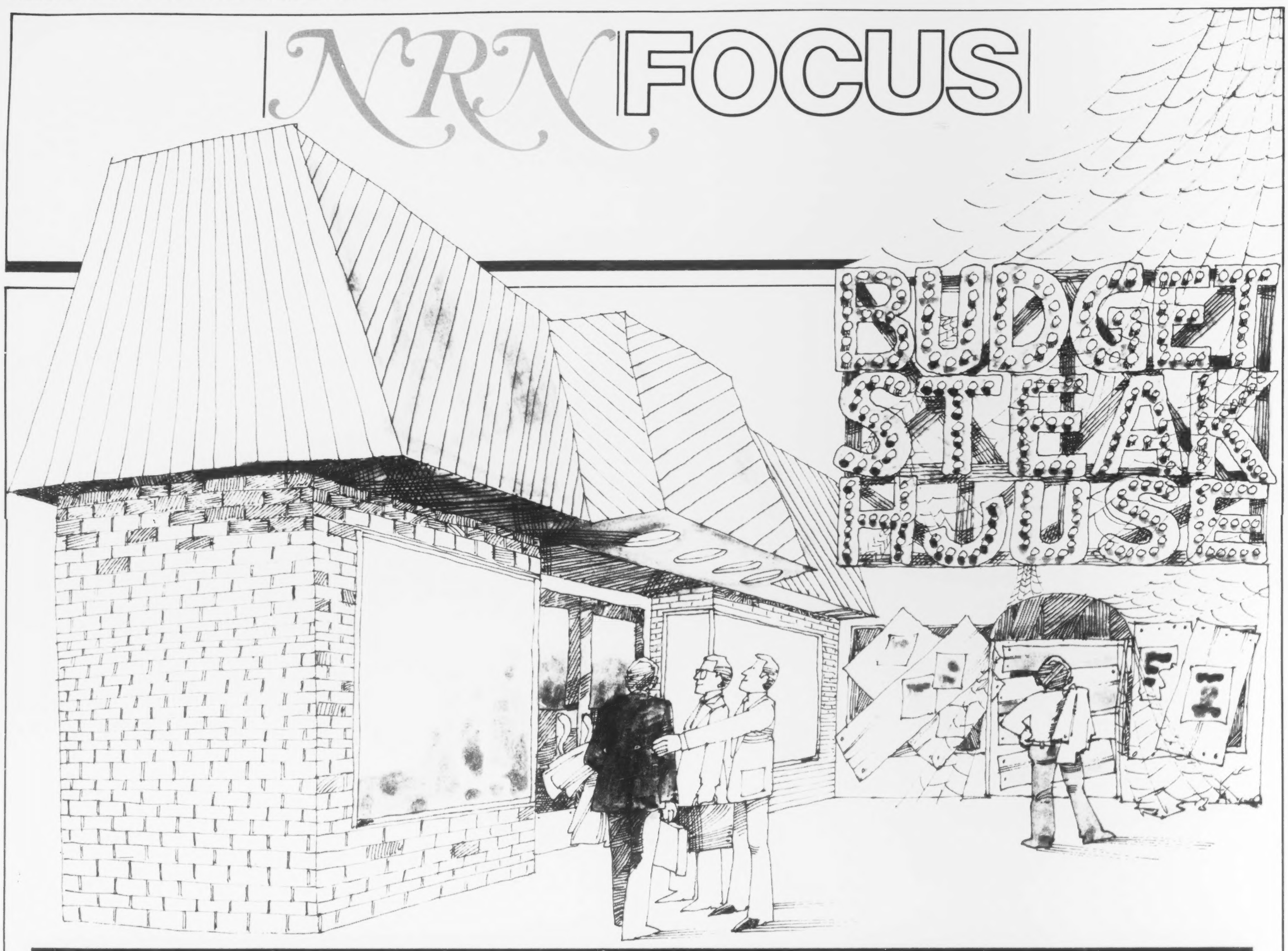

BUDGET STEAK CHAINS

THE DAWNING OF A NEW AGE ?

By Donald Frazier

It was the perfect idea for its time.

The new restaurant concept had everything Americans wanted in the late 1960's. It had the snappy service and low prices of a fast-food restaurant. It had few frills and an informal atmosphere suitable for everyone from young families to senior citizens. And its menu featured an item which has always enjoyed a special place in the American collective palate: steak.

As soon as people discovered they could dine on real *steak* for only a few cents more than they would otherwise spend for the same old tiresome hamburger, they made budget steakhouses some of the hottest draws in the industry. The companies that ran such restaurants prospered mightily.

From 1969 to 1974—the Golden Age of the budget steakhouse—the size of the Bonanza chain nearly quintupled. Ponderosa's net profit leaped by about 90% *per year.*

In those heady days nobody could have suspected that almost all of the major companies in the segment would one day turn away from the original bargain-basement concept. But major changes would occur by 1982. The companies would substitute better cuts of beef for their usually ungraded, tenderized product. They would add nonbeef items to their menus and create new, upscale indentities for their units. They would even devise new restaurant concepts to propel their companies out of the budget steakhouse segment entirely.

None of these ideas, of course, came up during the Golden Age. Back in 1969, Americans loved the budget steakhouse just as they were.

That is, *some* Americans. Nowhere was the concept more popular than in the nation's industrial heartland stretching from the shipping yards of Chicago to the auto plants of Detroit, the factories of Cleveland and the steel mills of Pittsburgh. Americans here in the "Blue Collar" belt were the favorite customers of the budget steakhouse companies for their ever-climbing union-sized paychecks, their big families and, most of all, for their meat-and-potatoes dining sensibility.

As long as the Midwestern industrial worker stayed in clover, the segment could weather everything from rises in the cost of meat to the increasing vogue for lighter entrees, such as chicken and fish.

This best of all possible worlds could not last for long, though, and it didn't.

First came inflation. Inflation begat stagflation, which begat full-fledged recession. Meanwhile, the big industries of the Midwest—autos and steel—were steadily losing ground to foreign competition, higher interest rates and, some said, their own overconfidence. The unemployment lines lengthened, disposable income shriveled. Budget steakhouses suffered dramatic drops in customer counts: anybody will trade down from a budget steakhouse to a burger outlet in hard times, but who trades down from a tablecloth establishment to a budget steakhouse?

Meanwhile, the burger chains had caught on to the tricks which allowed the segment to capture a share of the dinnerhouse market in the late 1960's. They, too, began to diversify their menus.

Never mind that many smaller companies, and outposts of the leaders—mostly in the Sunbelt—were still profiting from the concept. In the heartland, where the lion's share of the segment had been located, a few operators were putting up valiant fights to survive. But most were merely hanging on and the units were one-by-one, closing their doors.

At the home offices: first, griping about the business cycle and a commitment to waiting out the slump. Then, as the slump deepened, panic.

Finally, most operators faced the music. The good old days are gone. If their restaurants are to survive, they have to change.

For the two largest companies in the segment, this means the creation of entirely new concepts. And for almost everybody else,

it has resulted in a steady upgrading of product, decor and service style. The result? The transformed budget steakhouse now has a widely varied menu instead of a list of various steaks, it offers a selection of U.S.D.A.-graded cuts of meat instead of only the least expensive cuts from the least expensive animals heavily tenderized, of course and a cozy atmosphere with soft lighting, carpeting and partial waitress service instead of the old-style linoleum floors, fluorescent lighting and cafeteria line.

All of this means higher prices. But that's all right with most of the operators who are changing their budget steakhouses into something else. The higher prices shift their restaurants into a segment of the dining market that is not as vulnerable to a troubled economy as the blue collar population.

The new upscale strategy has been criticized because it seeks, in effect, to create a new segment and because there is no evidence yet that customers of dinnerhouses and coffee shops are looking for a viable direction to turn to. But the companies themselves are proof that brand-new segments can prosper if they fulfill a hitherto unrecognized need: that's what they did in the late 1960's.

The company which has moved farthest away from the traditional budget steakhouse is one of the segment's earliest trailblazers, Bonanza. With the creation of an entirely unrelated concept—People's restaurants—and the development of an aggressive upgrading scheme for its steakhouses—Freshtastiks's—the Dallas-based operator has apparently decided that the basic concept needs major modification in most of its markets.

The Freshtastik's program, according to marketing vice president Jeff Rogers, is a package of decor and menu improvements aimed at attracting health-conscious diners to Bonanza units, thus increasing their sales.

(Continued on page 41)

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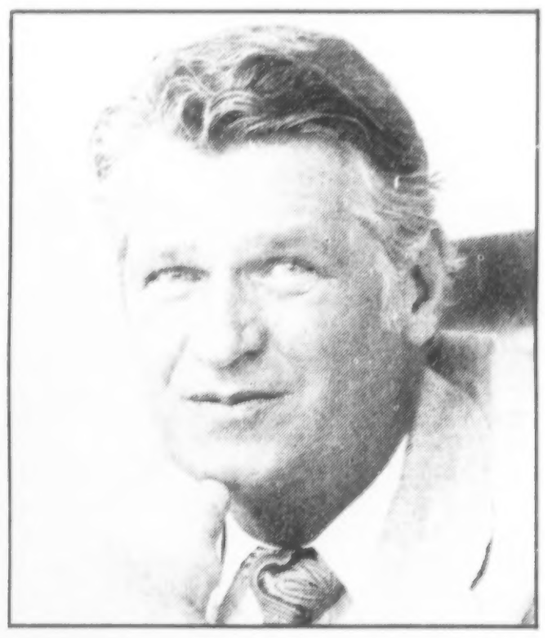
BUDGET STEAK CHAINS

Changing conditions dictate new orientation

THE BUDGET STEAK PICTURE

Company	Ownership	HQ City	Units	Average 1981 Units Sales (000)	Average 1975 Check	Average 1981 Check	% Change
Bonanza	Public	Dallas	604	$ 575	$2.30	$3.50	52
Golden Corral	Private	Raleigh, N.C.	186	665	2.20	4.45	102
Mr. Steak	Public	Denver	271	600	2.50	5.37	86
Ponderosa	Public	Dayton, Ohio	698	676	2.15	3.95	84
Quincy's	Spartan Food Systems	Spartanberg, S.C.	105	825	—	4.75	—
Rustler	Marriott	King of Prussia, Pa.	113	632	2.20	4.25	93
Sirloin Stockade	Lucky Stores	Oklahoma City, Okla.	117	1,200	2.25	4.10	82
Sizzler	Collins Foods	Los Angeles	472	750	3.50	5.75	64
Western Sizzlin'	Private	Augusta, Ga.	575	600	2.50	5.50	120
York	General Mills	Columbus, Ohio	135	850	—	5.70	—

Source: *NRN* Research



Bonanza is blazing new ground in the steakhouse segment with two innovative concepts—Freshtastiks and People's. With a new all-you-can-eat food bar, Freshtastiks appeals to health-conscious customers by stressing the freshness and wholesomeness of the food. Under the guiding hand of former Bonanza chief executive Don Thompson (above), People's, an independent company wholly owned by Bonanza, is a family-type addition to the booming market in casual theme establishments.

(Continued from page 39)

The centerpiece of the program is an all-you-eat food bar featuring diverse items such as salads, cheeses, breads, fresh vegetables, fruits and desserts. Although units which have adopted the program are supposed to downplay the importance of steaks to the Bonanza concept, they are also to switch to a higher grade of beef to satisfy the presumably health-conscious customer.

Rogers has said that the concept originated with his company's perception that healthful dining does not necessarily imply the so-called "health food." "We wanted everything about this concept to stress the freshness and wholesomeness of the ingredients," he has said.

Most of the units converted to the Freshtastik's concept were among ther company's low-volume, marginally profitable restaurants. These units have reportedly experienced sales increases of as much as $2,000 to $3,000 a week. About 200 of the more than 600 Bonanza units have reportedly installed the concept.

Demographics may contribute in part to the success of Freshtastik's where it has appeared. The concept reaches out to a group of customers who have never before patronized Bonanza in great numbers, among them women, young singles and the business lunch crowd.

But the structure of the Bonanza system may complicate management's plans to roll out the concept. The steakhouses are entirely franchised; each franchisee must approve of the relatively complex concept before it is installed.

As the steakhouses change, the company's management lavishes attention on the People's restaurants, an entirely different concept developed over the last few years. The People's division recently became an independent company wholly owned by Bonanza, selling its own stock. And former Bonanza chief executive Don Thomson personally guides it as president.

The People's concept, devised by Texas restaurateur Mitch Katz, is now vice president of the new company, response to three food trends sweeping the country over recent years: health-conscious dining (again), the vogue of "fun"-type foods, and eclecticism in menus. It is a family-type addition to the booming market in casual theme establishments, such as the Houlihan's chain run by Gilbert/Robinson, and the Bennigan's concept operated by Steak & Ale.

The People's concept was also developed as a forward-looking use for closed Bonanza units, taking advantage of their valuable and well-chosen sites instead of selling them off.

The restaurants are decorated with photos of celebrities and fitted with bar stools shaped like human feet. This, according to Katz, helps create a "lively, upbeat" feel.

The menu also contributes to this feel by featuring "fun" foods such as potato skins and nachos.

The units are equipped with an

(Continued on page 42)

Unemployment strips chains of clientele

Most of the frenetic activity in the budget steakhouse segment—moves to the Sunbelt, the development of new concepts, the refurbishing of old ones—seems based on one premise: the industrial economy of the United States has faltered, and it's going to get worse.

This, according to analysts at the U.S. Department of Commerce in Washington, is not to say that the market of the future will not have heavy industry or that even that the economy of the industrial heartland will not recover.

But it does suggest that those people who once worked in the region's factories in the millions will never again constitute a rich and concentrated market for budget steakhouses in that part of the country.

Manufacturing employment in the United States has suffered only a slight loss in the last five years. But the states of the industrial heartland have lost a disproportionate share of those jobs.

Even more are lost only to be replaced by other jobs in other parts of the country, usually the Sunbelt, according to statistician John Stinson.

He characterizes the recent spate of unemployment as structural instead of cyclical in its nature. This means that industries are no longer simply laying off surplus workers for a finite period of slack operations, but that they are now sloughing off the core of workers they would need if they were to resume effective operations in the forseeable future.

The phenomenon is not limited to the cities. Entire states, such as Pennsylvania and Ohio, now suffer unemployment rates of up to 30% higher than the national average of 8.3%. And Michigan's rate of 15%, according to another Commerce Department staffer, Richard Rosen, does not account for the large population of industrial workers who have simply stopped trying to find work. This figure, some have estimated, could hike the average by as much as 5%.

The economy of this region possesses great resilience, most analysts agree, anticipating recovery in the long term. But recovery, they stress, would occur in the low-paid service sector and in the technical and professional field—that is, not in the part of the economy which gave the budget steakhouses their years of initial prosperity and, their eventual decline.

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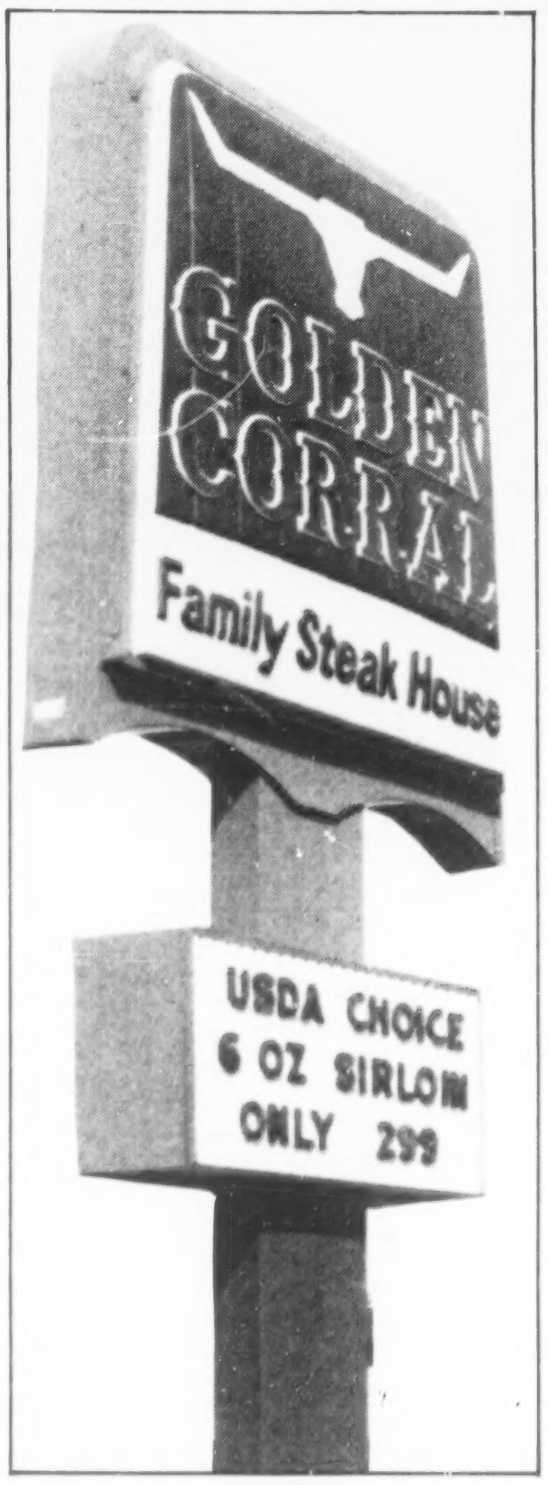
BUDGET STEAK CHAINS



One operation keeps thriving without changes

RALEIGH, N.C.—In a segment aswarm with new concepts, wholesale unit conversions and sweeping indentity revisions, the 186-unit Golden Corral chain is an anomaly: it wants more business as usual.

Why shouldn't it? Its original concept unlike those of its larger competitors, has brought it joy instead of misgivings. In 1981, a year of retrenchment throughout the segment, its sales increased 35% to $107 million. Undaunted by high interest rates, it built 71 units in 1981 and plans 60 more for 1982.

The record, according to executive vice president and co-founder William Carl, owes to his philosophy of concentrating on unit management and ignoring the industry's trends.

"We're so enthusiastic about the future because we view ourselves as concerned not mainly with food service, but with management," he says. "We put all of our time, effort and research not in the pursuits which distract some other companies, but in the development of talented management."

Despite its aggressive rate of expansion, Golden Corral has always placed the unit manager first, Carl says. This is important to his operation because good unit management can keep costs down by eliminating the need for layers of middle management to check on the unit level.

It also facilitates greater efficiency in marketing because the unit managers provide input directly to the marketing department at the home office and, in turn, receive the home office's programs directly—all without the involvement of intermediaries.

Marketing based in the unit, Carl says, is the best way to build solid customer counts and repeat business, because, as he says, "we want our restaurants to be involved with the grassroots of the communities

Fittingly, many Golden Corral unit managers tend to be involved in community and church organizations in their communities, Carl says. The company tries to keep them at the unit level instead of promoting them: it has adjusted pay scales to remove the manager's incentive to leave as soon as he knows what he's doing.

The result, Carl says, is a retention rate of about 80% for unit managers in a business where the normal turnover figure is closer to 200%.

He doesn't entirely discount the importance of his concept. The units serve an all-beef menu, all fresh U.S.D.A. choice, ranging from center cut sirloin to filet wrapped in bacon to chopped steak. There is no seafood, no chicken. But there is a 29-item salad bar. There is soup, dessert and unlimited refills of drinks.

"But none of this makes any difference," Carl says, "unless you know how to deliver it the best way."

THE METEORIC RISE OF GOLDEN CORRAL

	1977	1978	1979	1980	1981	1982*
Number of Units	27	62	106	151	184	244
Total Sales (Millions)	$8.8	$24.5	$50.9	$81.2	$107.9	$144.0

Source: *NRN* Research

*Projected

Conditions force new approach

(Continued from page 41)

extensive salad bar similar to the Freshtastik's mainstay, and offer a line of entrees intended to combine maximum appeal to those diners who would be attracted to the People's concept and the lowest possible menu prices. Some of these items are steak teriyaki, red snapper and a dressed-up meatloaf the menu calls the Mushroom and Burgundy Beef Creation. ("You might call it meatloaf, but we don't.")

The units offer liquor—a necessity for a concept which would be, as Katz says, a "Houlihan's for the whole family"—but management decided to sharply limit the influence of liquor on the concept by putting only 40 seats in the lounge area and aiming at 20% liquor sales.

The company refuses to discuss the performance of the 13 People's units now in operation beyond pointing out that their check average of about $7 double Bonanza's. But their record has convinced Thomson to slate a vigorous expansion schedule. He plans to open two a month until June, at which time the schedule will reportedly be accelerated. The group is now entirely franchised, but Thomson counts on eight company-owned units by the end of the year. Meanwhile, he expects 13 more franchised units. Katz, though, is apparently more optimistic. He has said 40 more People's units will open this year alone.

The wide-open, nonspecific design and the eclectic menus of the People's concept underscore one important lesson the company has learned in the budget steak business: don't put all of your chips on a concept which cannot evolve with time to meet the changing preferences of the market. This lesson, some analysts feel, bespeaks the difficult time Bonanza will have selling its upgraded steakhouses to the public. They say that the appearance of the surviving steakhouse units—not to mention their name—firmly welds them with the budget steak concept.

And that concept, they add, is now past its prime.

While Bonanza places its hopes in providing its steakhouse franchisees with upgraded concepts, the long-time leader of the segment—Ponderosa Systems, based in Dayton, Ohio—plans to unveil an ambitious dinnerhouse concept of its own within the next few years.

The company, according to vice president Donald Jackson, is now considering three possible formats for development and, eventually, replacement of many of its marginal units. The three are: Midwesternized Mexican-style concept similar to the phenomenally successful Chi-Chi's; a barbecue restaurant reminiscent of the Chart House operation, Luther's, and an upscale chicken restaurant resembling Bojangles or the Wendy's entry in this field, Sister's.

But the inside track, according to former employees and franchisees of the 676-unit chain, belongs to a Mexican-Southwestern concept uniting barbecue and the "Tex-Mex" style of Mexican food. They claim the company has started planning a menu for such a concept and has established a separate division to oversee its development.

Ponderosa, Jackson says, is so confident of the embryonic concept's viability that it has already identified about 50 steakhouses which could be profitably replaced by the new style of dinnerhouse.

This strategy, he concedes, needs more than astute marketing. It needs money, the money that would come from a revived system of budget steakhouses. The company's steakhouses have been vigorously upgraded in recent years, and franchisees unwilling to make similar improvements have been either disciplined or terminated. But the kind of upsurge in profitability needed to finance a new chain of dinnerhouses can result from only one thing: recovery in the industrial sector of the Midwestern economy (see sidebar).

Unlike its largest competitor, Bonanza, Ponderosa apparently has no Southern strategy to ease the hard times felt by its Frost Belt steakhouses. Although Bonanza has lost dozens of units in the Northeast and the Midwest over the last few years, it has always been able to replace them with other, more viable units in the Sunbelt. But Ponderosa has adhered to its original market area, largely because its system is about one-third company-owned, in contrast with the entirely franchised Bonanza.

Locked into the industrial Midwest like no other restaurant chain of national stature, Ponderosa felt the full brunt of the economic downturn in the area. The company was among the first to discover the extraordinary price-sensitivity of its traditional clientele when it raised prices in the mid-1970's to reflect the 40% hikes in the cost of meat. An increased emphasis on discounts and promotions stave off the inevitable for a while, but the beef cost increase eventually shoved food costs to the 45% range.

The answer, president Gerald Office Jr. determined, was to alter the chain's traditional elientele. Beginning the the late 1970's and continuing to the present, the chain has successfully changed its customer mix by offering a wider range of items at the top of the price and quality scale. From 1975 to 1979, the chain reduced the percentage of its sales constituted by promotional and lower-priced meals from 48% to 37%, and reduced the amount of its sales of middle-priced products such as ribeye and chopped beef from 44% to 32%. Meanwhile, it was hiking the percentage of its sales of top of the line items such as T-bone and prime rib from a mere 8% to 31%. A recent rollout of two more cuts of prime rib as well as an increasing reliance on salad bars and fish sales, both promise to swell this figure even more.

To accompany the program of upgrading the menu, the chain has designed and has, by presstime, largely executed a sweeping renovation program of its company stores, subdividing the dining rooms into smaller and more intimate areas, installing noise-dampening carpeting

(Continued on page 44)

NRN FOCUS

BUDGET STEAK CHAINS

Conditions force search for fresh identity

(Continued from page 42)

and ceilings, separating the service line somewhat from the dining areas, replacing the concept's traditional formica-and-fluorescent ambience with a gentler one using wood partitions and tables, hanging plants and even the hallmark of an upscale concept: a line of flatware designed to complement the surroundings.

The results of this strategy, though not yet complete, indicate that Ponderosa is beginning to escape its reliance on the industrial worker. For one thing, it has begun to attract a lunch crowd of business people and service workers.

For another, it does not seem to rely as heavily as it has in the past on special promotions and on stopgap measures such as last year's "value meal" concept, a low-cost entree priced at about $2.50.

A profitable, upscale steakhouse division is important to the executives at Ponderosa's home office not only for itself, but also for another reason: the dinnerhouse division, whenever it gets off the ground, is going to need money—lots of it.

Here, Ponderosa's diversification scheme may be in luck. The steakhouses now cover fixed costs even while highly underutilized. Customers would willingly pay more than $1 apiece for the product, the company's research says. Competition has been decimated by the region's economic woes. Because the chain is so heavily owned by the company, a larger-than-usual share of the profits go straight into the home office coffers.

This situation, according to some observers of the company, has an "extraordinary potential" for profitability. Jackson's office, sensing this, has calculated that a mere 2.5% rise in customer counts, matched by a 2.5% price hike, would increase the steakhouses' profits by a whipping 37.5%. Raise the ante to 10% on each side, and the number nearly triples, to 110%.

That's a lot of money for diversification. But it all depends on the eventual upswing in the region's economy, according to Office. What is going to make this happen? "It *has* to happen," he replies.

Two thousand miles away in Los Angeles, Tom Gregory views the troubles of the Northeastern industrial economy with understandable detachment. As president of the Sizzler division of Collins Foods, he presides over one of the first chains in the segment to change the format of the budget steakhouse.

True, about 35 Sizzler units have closed. But these, Gregory is quick to point out, tended to be in the older cities of the Midwest, where the preference for price-sensitive red meat is higher and disposable incomes are lower. Sizzler is lucky: most of its remaining 463 units are in the Sunbelt, where the economy is diverse (few mass layoffs there), costs are lower and advertising is more efficient.

But it owes most of its good fortune to a set of decisions two years ago which aimed at shifting the market appeal of its restaurants.

Gerald Office Jr. and the Ponderosa Systems braintrust, based in America's ailing industrial heartland, is eying a new Mexican-style format.

They, just like all the budget steakhouses, had aimed for the lower-income blue collar worker with a family; now, they would shoot for the largely white-collared lower managment employee, with or without a family.

"We had to accelerate our program if we were to maintain some position in the market," Gregory says.

Prices in the restaurants were due to rise anyway, he explains, to reflect the rising cost of beef and seafood, which Sizzler began to serve six years ago. "We had to justify those prices with a package of higher perceived quality."

Part of that package was an upgraded decor, he says. As originally conceived, most budget steakhouses deliberately skimped on their decor packages because their principal customer, the blue collar worker, is extremely value-conscious and might feel that an attractive restaurant interior means the food is overpriced. But this reasoning does not apply to the demographic groups Sizzler decided to attract.

But menu development was a bigger part of upscaling Sizzler. As one of the first chains to depart from the concept's original commitment to serving exclusively red meat when it entered rolled out king crab legs in the mid-1970's, Sizzler learned that seafood is more than just one more item: it can actually build sales of the red meat items.

The battle for friendlier demographics is not yet over for Sizzler. The Los Angeles area, where 107 units operate, has some heavy industry and is thus vulnerable to some of the same pressures afflicting the Blue Collar Belt. Two General Motors plants closed; Collins leases three Sizzlers to a Mexican-style chain, Acapulco Los Arcos.

But the company seems to have broken down the old equation between budget steak and bargain basement. Its new customers, by subjective measure, are drawn from a more affluent stratum of the work force. They are less sensitive to price increases, less likely to suffer from economic downturns and more likely to spend on side dishes. But objective measure, they have given Sizzler a check average of $5.75, one of the highest in the segment, and a 10% growth rate in monthly unit volumes to about $64,000. In California, on the West Coast, the monthly unit average is higher, about $84,000.

Southern-based chains, for reasons having to do with a value-consciousness that cuts across all sectors of the market, have helped keep alive the original concept of the budget steakhouse.

Two of the most successful operators in this region, Raleigh, N.C.-based Golden Corral, and Augusta, Ga.-based Western Sizzlin', have posted remarkable increases in both check and unit averages by adhering to the concept with which they began. (See separate story on Golden Corral.) But another Sunbelt budget steakhouse company, Oklahoma City-based Sirloin Stockade, has upscaled its operations as radically as any of the Northeastern companies recently.

"We decided that we wanted to stay with budget steakhouses but we wanted to both improve the quality of our basic product *and* offer an alternative. Not everybody likes beef, you know," observed the company's new vice president of operations, Gary Johnson. When he came to Sirloin Stockade, he inherited an operation which had begun to lose customers and money because, some speculated, it has failed to keep up in quality with the other chains in its area, making it vulnerable to competition from the burger chains.

He moved quickly. He changed the service style of the restaurants from self-service to the partial waitress service which the others in the segment offer. He installed salad bars, and added some seafood items and chicken to the menu. Most importantly, he upgraded the quality of beef served and altered the commissary's operations to improve quality and portion control. And he decided to avoid discounting.

These measures have probably cost the chain some customers. But in Sirloin Stockade's areas—Oklahoma, Minnesota, Kansas and Missouri—they are fewer, presumably, than those who would be attracted by the improvements. Johnson expects his program to be fully under way by the end of the year.

One operator has escaped the worst of the downturn in the Midwestern economy by locating itself almost entirely in shopping malls. This strategy has assured York Steakhouses, based in Columbus, Ohio, of a consistent traffic of both impulse-diners and those who wish to save gasoline by combining shopping with dining.

Berndt Gros, York president, refuses to discuss the 135-unit chain's present and future strategy, possibly a reflection of its ownership by the massive food corporation, General Mills. That strategy is apparently working, though: check averages have reportedly jumped to $5.70, placing York among the leaders in that category. Average unit sales have also benefited: the chain, reportedly deep in the doldrums last year, has pushed its annual sales figures to about $850,000 per unit.

Two operators may have proven wrong the adage that the so-called "family" steakhouse is actually at the top, discretionary, end of the burger market.

Valle's, concentrated in New England, combines old-fashioned marketing techniques, strong regional identities and the economies of massive scale to create check average midway between the budget steakhouses and the upscale dinnerhouses.

Upgrading its homespun concept would probably be the undoing of the Valle's chain, based in the Boston suburb of Wellesley, Mass. The 32 restaurants seat around 400 each, have waitress service and foster a check average of about $7. Although the chain has recently started to develop its Florida territory, placing eight units there since going public in 1968, it remains firmly bound to its New England stronghold where it has developed a loyal clientele.

But Hanover Trail was unable to succeed in the long run with a similar concept. At one point in the mid-1970's, Campbell Soup Co. operated ten of the behemoth restaurants, which offered full waitress service and a beef-oriented menu and posted a check average of about $7.50.

A combination of rising beef prices and changing consumer tastes doomed the concept, according to Campbell spokesman Scott Rombach. Only five are now operating; the others have been either closed, sold or converted to the company's casual theme, H. T. McDougal's Fun 'N' Foodrinkery, a Houlihan's-type establishment.

Upgrading the Hanover Trail concept was apparently precluded by the sheer size of the units: most seated about 650 people; some, as many as 800. The single massive unit is a restaurant idea most analysts have consigned to past, or at least to very traditional markets.

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THE PHILADELPHIA MA...

A restaurant renaissance—Pages 15-37

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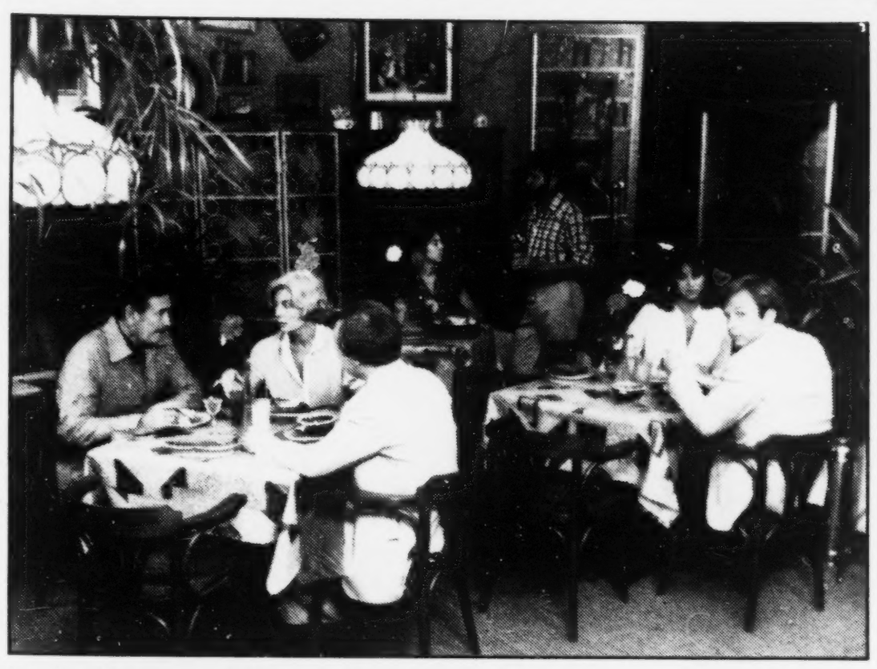


With the acquisition of Ruby Tuesday's, a casual dining concept, Morrison's will gain access to a new customer base.

Morrison acquires Ruby Tuesday chain

MOBILE, Ala.—Morrison Inc., the 153-unit cafeteria chain, is breaking into the casual restaurant business with the acquisition of the 16-unit Ruby Tuesday chain.

Price was not disclosed but Morrison is prepared to issue 325,000 shares of common stock, currently valued at about $3 million, over the next five years depending on performance.

The signing of the definitive agreement March 8 culminated six months of negotiations between Morrison, headed by Gene Bishop, president and chief executive, and Ruby Tuesday's president, Samuel "Sandy" Beall, 31, who founded the chain 10 years ago. Closing was set for early April.

Morrison, committed to retaining Ruby Tuesday management and its Knoxville headquarters, plans to build another 28 units in the South

(Continued on page 63)

Treacher's network wanes as franchisees jump ship

By Donald Frazier

PHILADELPHIA—Entering its second year of a paralyzing legal battle with corporate parent Mrs. Paul's, the once-strong Arthur Treacher's franchisee network is now apparently falling apart.

Several franchisees have sold their operations to other companies; some have simply shut their doors and declared bankruptcy. Many of the stronger members of the system have struck out on their own with new names and signs but the same fast seafood concept.

"The vast majority of Arthur Treacher's franchisees have now either left or plan to in the near future," asserted Judith Cohen of the Philadelphia law firm Wolf, Block, Schorr and Solis-Cohen, which represents several of the franchisees in their suit against Mrs. Paul's in United States District Court here.

Although the exact number of Arthur Treacher's franchisees who have left the system cannot be known with any certainty, numerous ex-franchisees agreed with the lawyer's assessment.

The company counted as many as 620 franchised units as recently as 1979; sources inside Mrs. Paul's acknowledge at least 350 defections since then. The Philadelphia-area press claims the actual figure exceeds 400.

Executives for Mrs. Paul's and Arthur Treacher's did not return a reporter's telephone calls requesting more information.

Some former Arthur Treacher's franchisees have banded together under the name of Gulliver's, which is incorporated in Montana and lists three former Treacher's franchisees as officers.

Several others have created their own concepts to replace the Arthur Treacher's identity. At least 64 former Treacher's units now do business under other names.

These former Treacher's franchise groups include McMichael's, which operates 17 units in suburban New York; Ivar's, which runs 18 stores in the Seattle area; The Veranda, a group of 15 restaurants in Connecticut; Jack's Fish and Chips, numbering five units in northcentral New Jersey, and

(Continued on page 63)

New tax proposal targets tip fraud

By Ken Rankin

WASHINGTON—Restaurants will be required to report employee credit card tips direct to the Internal Revenue Service under a controversial new legislative plan to trim the soaring Federal deficit.

Supporters of the proposed "taxpayer compliance" legislation told *Nation's Restaurant News* that Federal tip disclosure requirements are essential because over 80% of the income received by waiters, waitresses and other tipped employees is not reported to the IRS.

The total tax revenue drain from tip chiseling by food-service workers alone is likely to exceed $1 billion next year, they charged.

Proposals to require employers to report the credit card tip income of their workers aren't new. Federal tax officials have been calling for such legislation for years, and during the late 1970's restaurant industry lobbyists beat back a Carter Administration proposal which would have established similar reporting rules.

The new legislation, which surfaced on Capitol Hill earlier this month, could prove far more difficult to defeat.

This time around, the plan is being pushed by key Congressional Republican leaders, including Senate Finance Committee Chairman Robert Dole (R-Kan.) and Internal Revenue Oversight Subcommittee Chief Charles Grassley (R-Iowa).

Moreover, the tip reporting provisions in the Dole-Grassley measure represent only one

(Continued on page 63)

Seeking wider customer base

Wendy's tests new dinner items

By Roman Czajkowsky

COLUMBUS, Ohio—Despite lingering growing pains from last year's acquisition of 161 franchised units, Wendy's is moving ahead with several new menu moves, all designed to broaden the burger chain's customer base.

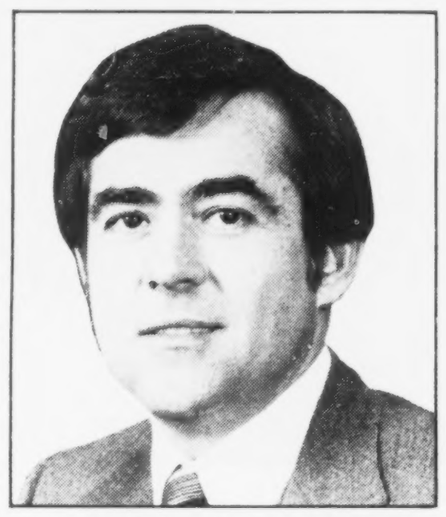
According to company officials and other sources, a long-tested breakfast program will be made available to franchisees, albeit on a cautious, store-by-store basis.

At the same time, Wendy's has begun testing a low-priced dinner plate package in two units in the Cincinnati market. Featuring fish, beef and chicken entrees served with a baked potato and a preportioned salad, the new package signals a potentially heavy marketing effort to expand dinner business.

In addition, the chain plans a systemwide rollout of taco salad, which tests show has a special appeal to women. Network TV and radio spots to support the new salad were slated to break March 15.

Wendy's is also looking to add up to 35 new Sister's Chicken & Biscuits restaurants this year to its current flock of 14. Sisters, the company's first diver-

(Continued on page 63)



Robert Barney
Wendy's president, ceo

Gen. Foods unloading U.S. dinnerhouses

By Rick Telberg

WHITE PLAINS—General Foods, having sold its 700-unit Burger Chef Systems for $44 million in cash, is now looking for buyers for its 13 dinnerhouses located in the United States.

The Theme Restaurants of America Division consists of five GuadalaHARRY'S Mexican restaurants and eight Meriwether's English steakhouses.

Company spokesmen said extensive Canadian restaurant holdings were not for sale.

Meanwhile, on March 10 at the Indianapolis headquarters of Burger Chef, General Foods officials ceremoniously turned over title for the chain to officials from Hardee's Food Systems, the 1,400-unit burger chain based in Rocky Mount, N.C.

General Foods disclosed no asking price or deadline for selling the 13 dinnerhouses, but said restaurant operations would be business-as-usual until the units were sold.

Brian G. Laragh, restaurant division president, was named president of the company's Food Service Products Division in a general shuffle of top management in February. He retains his duties as chief of the dinnerhouses.

With the sale of Burger Chef and the move to sell its theme restaurants, General Foods will be concentrating on its grocery businesses. Wall Street observ-

(Continued on page 64)

LATE NEWSBREAKS

Jewel Cos. has agreed in principle to sell its 81 Brigham's ice cream shops and restaurants to Robert P. Johnson, former Brigham's president (1976-80), for an undisclosed amount. Current Brigham's president Robert Nakasone will get another assignment within Jewel Cos.

Kentucky Fried Chicken, which hopes to increase its penetration of northeastern urban markets, is testing spicy chicken, collard greens, dirty rice and biscuits in a number of restaurants. Also in test is a biscuit breakfast.

Hardee's is testing beef brochette and seafood platters in a few units in the Midwest and Southeast. The 1,300-unit burger chain will add a bacon cheeseburger to menus systemwide next month.

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Fine-dining awards myst... ...staurateurs

By Susan Spedalle

Though many restaurateurs aspire to attain the prestigious national fine-dining awards, such as Mobil, Travel Holiday and Cartier, an informal *Nation's Restaurant News* survey has revealed that few recipients are aware how the winners are chosen.

In addition, some are unsure of what use to make of the awards after they've gotten them and others think the conveyors of the awards must do more publicity work.

Walter Kaplan of the Embers in Miami displays his Travel Holiday award in the restaurant's window, but says, "I don't do a lot of blowing my own horn. We've had it [the award] for over 20 years and we're popularly known. . . . I think customers like to see that we've got some recognition, but they don't base a decision to come here or not on the award."

Another restaurateur, who asked for anonymity, uses his (Travel Holiday) award status in advertisements, "but I'm not a great believer in advertising anyway. A certain segment of the dining public probably takes the award very seriously, a very select few, but even they probably don't know who rates the restaurant, who thinks it's good."

Does he know? "It's an anonymous visitor, that's all I know. I guess it's a diner who travels around the world."

The restaurateur is close. The "author and compiler" of the Travel Holiday awards is the well-known wine authority Robert Lawrence Balzer, who started the program with *Holiday* magazine and kept the position when the publication was purchased by *Travel* magazine.

This year there were 750 awards and recommendations for awards. Since it would be physically and financially impossible for Balzer to visit each restaurant, he has invoked a cabinet of "12 incorruptable bankers, lawyers, engineers . . ." to be his eyes and ears. He describes them as sophisticated diners who are willing to pay their way and who travel frequently as part of their work. Yet even with 12 sets of "eyes and ears" each member of the unofficial board of selectors would have to visit 58 restaurants per year—and none could overlap.

Balzer admits that not every restaurant is visited every year ("it is not the fact and cannot be") but "the majority are visited," he says. He also relies on the mail and has become a keen evaluator of reader correspondence, he says. This year Balzer was able to rewrite descriptions of the first 40% of the guide.

Those who feel that awards should only be given out by people who employ battalions of tasters and health inspectors should be encouraged by the criteria with which Mobil

(Continued on page 64)

Robert Balzer selects Travel Holiday award winners.

Wienerschnitzel revamps menu, diversifies

By Jim Storey

NEWPORT BEACH, Calif. —Wienerschnitzel International is in the midst of a major repositioning campaign, the main components of which are hamburgers and photo-finishing.

The privately owned company is revamping its chain of 340 Wienerschnitzel fast-food restaurants, replacing the predominantly hotdog-oriented menu with a line of adult-style hamburgers.

Company officials report that since the effort began last fall, hamburger sales have jumped from 20% to 40% of the average unit's mix and per unit profits have risen 5% to 6%.

At the same time, the firm has established a new division that is developing a chain of one-hour photo-finishing retail stores. The first unit, called Photoworks, was scheduled to open at presstime.

Sales Down

Wienerschnitzel plans to open up to 30 company-owned and franchised Photoworks this year, company officials said. In addition to franchising the concept to its restaurant franchisees, Wienerschnitzel also has started franchising to the general public.

While it may not be readily apparent, hamburgers and photographs have much in common as major factors in the company's repositioning effort, according to Wienerschnitzel president John N. Galardi. Both are growing areas of the retail industry.

New Markets

Hamburgers, if they are marketed to the adult, are a viable competitive factor that a regional can use against the major national chains, he explained. Photography is also a major growth area, particularly the fledging one-hour processing concept, a relatively new technology in which a roll of color film is processed and printed in less than an hour.

For franchising, Galardi explained, the one-hour processing concept "moves the clock back and gives you what the fast-food industry had 20 years ago."

What the fast-food industry had, he says, was a low initial investment cost, high profit margins and ease of operation. "The quality of the profit margins reminds me of the fast-food industry in 1960," Galardi said.

Product costs for the photo-finishing concept are in the 15% to 18% range, compared with the 37% to 41% range for the fast-food industry, he said.

Wienerschnitzel began searching for potential new growth areas about two years ago. The company at the time was experiencing declining customer counts, sales and profits, and has ceased franchising and expansion.

Wienerschnitzel, then primarily a hotdog chain, was witnessing its major market segment shrink as the post-World War II baby boom generation, which grew up on fast food, began reaching adulthood. Meanwhile, Galardi explained, major national chains, armed with tremendous marketing budgets, continued to capture a larger slice of the shrinking pie, mostly at the expense of the smaller regionals and independents.

"We looked around and said

(Continued on page 64)

Smith's domain increases at PepsiCo

By Charles Bernstein

PURCHASE, N.Y.—Donald N. Smith, president of PepsiCo's food-service division (Pizza Hut and Taco Bell), has now also been given responsibility over PepsiCo's international snack foods, North American Van Lines and Lee Way Motor Freight.

This increase in Smith's domain occurred after Peter Warren, 63, said he was retiring as chairman and chief executive officer of PepsiCo International, and Victor Bonomo, corporate operations executive vice president, was chosen PepsiCo International president and ceo. Bonomo had been responsible for seven PepsiCo companies, three of which will come under Smith's jurisdiction.

Bonomo will continue to head PepsiCo Wine and Spirits. Robert Beeby, former president and chief operating officer of PepsiCo International, is the new president of PepsiCo's Wilson sporting goods while John Sculley, president of the Pepsi-Cola Company, also will head concentrate manufacturing, research and technical services.

Sculley and Smith appear to have gained the most ground in the highly competitive PepsiCo corporate hierarchy. Pepsi-Cola (Sculley), PepsiCo's food-service division (Smith) and Frito-Lay domestic snacks are the three major over $1 billion annual volume companies under the PepsiCo umbrella.

Smith, who became Burger King president and ceo in January 1977 after having just been moved up to McDonald's chief operations officer, was appointed a PepsiCo corporate senior vice president and president of the newly formed food-service division (Pizza Hut and Taco Bell) in the spring of 1980. He retains these posts and responsibilities while advancing in the corporate hierarchy.

Smith has only two executives working directly under him in the food-service division office here—Don Christopherson, former Burger King chief financial officer, in the same post, and Graham (Gil) Butler, former Pizza Hut group vice president, as president of the division's international operations.

Ever since Smith assumed the reins of the new division, there has been speculation about a possible pending acquisition of Wendy's or another burger chain. Now that Pizza Hut and Taco Bell appear to be turned around on an upward course, that speculation is increasing. But there have been no known specific offers or deals.

$151M Host acquisition finalized

By Jim Storey

SANTA MONICA, Calif.—Host International shareholders have officially approved Marriott Corp.'s $31-a-share offer to acquire the operator of airport restaurants and gift shops.

At a special meeting held earlier this month in Los Angeles, 74% of the 4.9 million shares outstanding were voted in favor of the acquisition.

The total purchase price for the chain was approximately $151 million.

Marriott's acquisition ends a bidding battle for Host that began in October when the company agreed to be acquired for $24.25 a share by DFS Group Ltd., a privately held Hong Kong corporation. Marriott, then holding acquisition discussions with King of Prussia, Pa.-based Gino's, surprised the industry by offering to acquire Host for $29 a share.

DFS, a company that operates duty-free shops in various countries, countered by upping its bid to $29.25 a share.

In an apparent move to discourage a Marriott counteroffer, Host directors quickly entered into a definitive agreement with DFS. That agreement gave DFS the option, should another company purchase more than 50% of Host, to buy all Host's duty-free operations, its Los Angeles general merchandise operations and up to 875,000 shares outstanding for $29.25.

Marriott was undeterred by the Host-DFS deal. It soon countered with the $31-a-share offer, which was ultimately approved by Host shareholders.

DFS's interest in Host was sparked early last year after Host began operating duty-free shops in Hawaii, competing directly against DFS. Host abandoned the Hawaiian operations late last year

Marriott operates contract inflight food-service units, and has sizable restaurant operations in addition to its hotel division. Analysts have said that the Marriott-Host union should be a good one since Host operates airport food-service facilities, four airport hotels and 52 dinnerhouse restaurants.

Marriott said last month that the Justice Department was investigating possible antitrust implications involving the Host acquisition. Both Host and Marriott officials have indicated, however, that they have heard nothing new.

HIGHLIGHTS IN THIS ISSUE

Philadelphia, a town that was not known for its dining until the late 1970's, is experiencing a restaurant renaissance. In this issue's focus section, *NRN* explores the transition. *Pages 15 to 37.*

Horn & Hardart is closing its Royal Americana Hotel and Casino in Las Vegas, citing significant operating losses. *Page 45.*

Po Folks, a fast-growing Southern budget family chain, is negotiating a joint venture agreement with W. R. Grace. *Pages 44 to 45.*

Robaire's in Los Angeles is celebrating its 30th anniversary, an event considered quite a feat in a city known for its new and trendy establishments. *Page 48.*

How important are menus and which direction are they heading? In a guest column, Francis Lux, president of Lux Design Group, offers some insightful ideas on menus. *Page 12.*

Red Barn's switch from national to regional operations is helping lift the family restaurant chain out of the red and into the black. *Page 11.*

Interstate United is launching a merchandising program for vended products containing no artificial additives or preservatives. *Page 11.*

Pizza houses, chicken fast-food units and Mexican dinnerhouses are being eyed as lucrative markets. But, as *NRN* editor Charles Bernstein advises in an editorial, innovators are more apt to succeed, while imitators may fail. *Page 6.*

Withholding prices of wines not found on a restaurant's wine list can be a form of intimidation, says wine and spirits columnist Mort Hochstein. *Page 13.*

Heublein is preparing a counteraction against General Cinema Corp., notifying the company of its plan to acquire as much as 50% of its outstanding voting stock. *Page 8.*

REGULAR FEATURES

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Bar Management Supplement inserted loose between Pages 2 and 3.

COMMODITIES

Red meat is the exception to moderating food prices

NRN Special Report

The rate of price rises for most foods—at the point of purchase in the field—has been moderating for the most recent three months. The one major exception is the price of red meat, which has been moving up and down like a yo-yo.

Meat price swings, not unusual at this time of the year, have been accelerated by the combination of slackened demand by an economy-buffeted consumer market and the storms which have made transportation of meat animals to market difficult or impossible for up to a week or two at a time. These factors, combined with hog farmers' intentions to keep production cut back until prices rise, have contributed to the single most powerful influence on food price reporting.

Contracts for California field crops are now being adjusted for final price levels on many vegetables, and the reports indicate average acreage will be greater than last year, but that prices for farmers will be substantially higher, meaning processed vegetables will show another rise during the 1982 canning season. Freezers are facing the same escalating cost pattern for crops which can be diverted to the fresh produce market if contract prices do not please farmers.

Lent Changes Consumption Patterns

The market for red meats during Lent is normally reduced, while the demand for eggs is strong. Egg producers, who have cut back on their production, have pushed prices up during the Lenten season to more than 13% greater than last year at this same time. While egg prices are expected to moderate somewhat after Easter, continued production restrictions will mean egg prices will stay above last year's levels.

California Vegetable Prices Down

Lettuce, which after the first of this year had soared to as high as $15-$16 per case of 24s in the Imperial Valley packing sheds, has now dropped to levels near the previous year. Cold weather and the end of the feeding season for the white fly has nearly eliminated damage from that source—which had resulted in drops of as much as 50% in output. Some price rise is expected between the end of the Imperial Valley crop season and the beginning of the season in the Salinas area, although the Salinas acreage is large and production estimates are encouraging.

Asparagus prices are dropping to seasonal levels and below. Current first crop prices are already trending to drop 10%-15% lower than last year at this same time. Last year's Salinas area crops were sorely affected by extremely heavy rains. The acreage reported by the U.S. Department of Agriculture for California asparagus is nearly 8% larger than last year. This should affect canners, freezers and the fresh produce market equally.

PRICE MOVEMENT AT A GLANCE

	March 5 1981	Feb. 5 1982	March 5 1982
Asparagus, fresh Calif. large loose green (ctn)	$33.00	—	$28.00-30.00
Beans, pinto, dried California (cwt.)	$35.00	$18.50	$15.50-16.00
Beef, Choice, 700-900 lb. Midwest (lb.)	$ 0.95	$ 1.01	$ 1.05
Broilers, Grade A, icepack NYC (lb.)	$ 0.5281	$ 0.5032	$ 0.4982
Eggs, Grade A, large white, Chicago (doz.)	$ 0.6675	$ 0.745-.75	$ 0.755-.76
Lettuce, iceberg, California (24s)	$ 3.00-3.50	$ 7.00-8.00	$ 3.50-4.00
Pork loins, 14-down, Midwest (lb.)	$ 0.955	$ 1.04	$ 0.94
Rice, No. 2, milled, Arkansas (cwt.)	$25.00-27.00	$19.00-20.00	$18.00-19.00
Tomato ketchup, Fancy, California (6/10)	$13.15	$16.30-16.55	$17.30

Source: NRN Research

Prices listed are packers' f.o.b. plant, unless specified, and do not represent the prices paid by the operator. This list is only a reference to indicate price trends against benchmarks of one year ago and one month ago. Products listed are those showing marked movement in price.

Ponderosa set to plunge into hot Mexican market

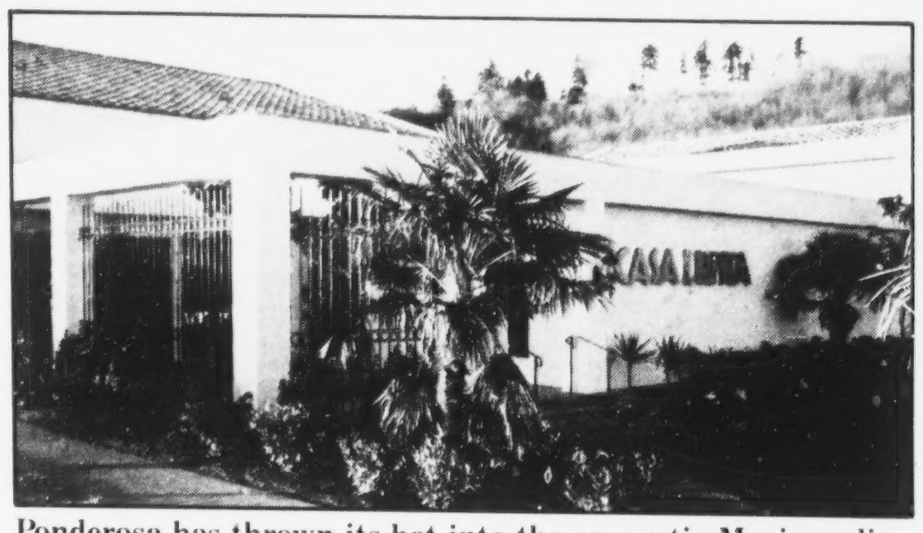
By Donald Frazier

DAYTON, Ohio—Ponderosa Systems, leader of the budget steakhouse segment with nearly 700 units, has confirmed reports that it plans to diversify into the Mexican dinnerhouse market.

The company has picked 49-year-old Edwin Ourant, formerly president of Ohio-based Rax Systems, to spearhead its new specialty restaurant division as executive vice president, according to Donald Jackson, Ponderosa's executive vice president for finance.

It has also bought the concept, including menu, service mark and operational systems, of the three Casa Lupita restaurants in the Seattle area for an undisclosed price.

The acquisition of the Casa Lupita concept puts an end to months of speculation about Ponderosa's plans. The company had considered diversification into several other concepts—barbecue and upscale chicken among them.



Ponderosa has thrown its hat into the energetic Mexican dinnerhouse segment with the purchase of three Casa Lupita restaurants.

Ourant joined Rax Systems, a 200-unit chain of fast-food outlets, 14 years ago as a member of its original executive team. He was also a principal in a firm which held franchises for several companies.

Ponderosa tapped him for the job, according to the company's chief executive officer Gerald Office Jr., because Ourant has both the operational and administrative experience necessary for the head of a new restaurant division.

The Casa Lupita restaurants, which have been open for eight years, are characterized by Spanish Colonial-style fittings, tile-and-wood interiors and skylights, said Mark Ci-

(Continued on page 64)

Hotel occupancy rates drop for 2nd consecutive year

By Rurick Telberg

NEW YORK—Occupancy rates in United States hotels and motels continued to slide downward last year as the industry suffered the effects of recession, according to two leading firms tracking the industry.

The two firms—Laventhol & Horwath of Philadelphia and Pannell Kerr Forster of New York—differed in their figures, but agreed on the trends.

Pannell Kerr Forster said occupancy rates last year fell from 71% in 1980 to 68%. Laventhol & Horwath said the falloff was from 69% in 1980 to 67%

Both firms agreed, however, that sales grew 7.4%—short of the increase in room rates, indicating lodging properties failed to offset the occupancy decline with price increases.

Pannell Kerr Forster estimated that room rates increased 12% last year. Laventhol & Horwath said room rates increased about 10% to $45 per room last year.

In addition, Laventhol & Horwath reported the 7.4% sales increases was based on an 8% increase in room sales and a 9% increase in food and beverage sales to $27, per occupied room.

The two accounting firms also generally agreed on the outlook for this year: More of the same. Occupancy rates will remain practically flat and sales growth will stagnate as price increases face consumer resistance, they said.

The recession-ridden economy was blamed by analysts and industry executives alike. Some were betting that mid-year tax cuts might relieve some of the cost-price squeeze.

"At best," said Juergen Bartels, chief of Ramada Inns' hotel group, "the industry is expecting zero-growth." Based on a 30% boost for Ramada's promotion budget to $26 million, Bartels is budgeting a 1.6% occupancy rate increase.

Manuel Ferris, president of Sheraton's North American division, said recently: "We believe 1982 will be even or slightly ahead of last year in overall occupancy."

Occupancy rates have been falling since 1979, when they were 74%, according to Pannell Kerr Forster.

Miami was the hardest hit market last year as Cuban refugees flocked ashore. Liberty City erupted in riots and drug wars escalated. Said Christopher Perks, general manager of the 556-room Omni International: "You have to be able to engineer every line on your payroll and price list."

The boom years leading up to 1979 launched a spate of building with about 125,000 new rooms coming on line last year.

With the new rooms, came higher prices last year, just at the time when consumers, smarting from a 16%-20% hike in 1980, cut travel to a minimum. The air traffic controllers strike, which cut air travel by 25%, also played a hand in last year's drop-off.

HOTEL OCCUPANCY RATES IN KEY U.S. CITIES

City	1981	1980	1979
Atlanta	60%	64%	70%
Boston	73	76	78
Chicago	62	65	67
Dallas/Fort Worth	63	67	71
Houston	66	66	71
Los Angeles	75	78	79
Memphis	64	64	63
Miami	66	78	77
New York	73	78	81
Philadelphia	64	65	63
San Diego	78	77	80
San Francisco	76	78	86
Washington, D.C.	66	69	72

Source: *Pannell Kerr Forster*

BK takes aim at in-store market

MIAMI—Burger King is exploring the possibility of setting up shop in "captive" markets such as department stores and institutional feeding operations, it has been learned.

Among the target areas is Woolworth, the variety and discount store chain now in the midst of an extensive refurbishing program of its own food-service outlets.

Jeffrey Seeberger, Burger King's vice president for franchise development, acknowledged the Miami-based hamburger chain has been looking into nontraditional sites, including Woolworth. But he said that so far "no commitments" have been made with anyone.

"At present, we are looking at some captive audience" markets, including department stores and "institutional feeding situations," Seeberger said. He characterized Burger King's discussions in this area as being "very preliminary."

E. L. Kerber, vice president of restaurant operations at New York City-based Woolworth, also acknowledged the talks with BK, but said "nothing has been finalized." Kerber said the department store chain, which operates 1,075 Woolworth and 350 Woolco stores, has been "working with a number" of other restaurant operators about a possible association with Woolworth.

According to Seeberger, a decision on moving to nontraditional locations won't be made for some months yet.

For BK, a "captive audience" location would not be without precedent. For the past several years, Phoenix-based Greyhound Corp. has been converting some of its old bus terminal food-service outlets into Burger Kings. Today, Greyhound operates about 30 such franchised restaurants, each of them with sales above the burger chain's national average.

Opening Burger Kings, in whatever form, in Woolworth stores could put the Burger King name on some choice property.

Considered a pioneer in in-store feeding, Woolworth more recently has been modernizing its various luncheonettes, coffee shops and cafeterias.